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1 UNITED STATES DISTRICT COURT
2 SOUTHERN DISTRICT OF NEW YORK

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3 HACHETTE BOOK GROUP, INC., *et*
4 *al.*,

Plaintiffs,

5 v.

20 Civ. 4160 (JGK)
Remote Proceeding

6 INTERNET ARCHIVE, *et al.*,

7 Defendants.
8

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9 New York, N.Y.
10 March 20, 2023
1:00 p.m.

11 Before:

12 HON. JOHN G. KOELTL,

13 U.S. District Judge

14 APPEARANCES

15
16 DAVIS WRIGHT TREMAINE, LLP
Attorneys for Plaintiffs

17 BY: ELIZABETH A. McNAMARA

18
19 MORRISON & FOERSTER, LLP
Attorneys for Defendants

20 BY: JOSEPH C. GRATZ
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N3K5hacA

1 (Case called; The Court and all parties appearing
2 telephonically)

3 THE COURT: This is Judge Koeltl. Who is on the phone
4 who will be arguing for the plaintiffs?

5 MS. McNAMARA: Elizabeth McNamara of Davis Wright
6 Tremaine, your Honor. Good afternoon.

7 THE COURT: Good afternoon.

8 And who is on the phone who will be arguing for the
9 defendant?

10 MR. GRATZ: Good afternoon, your Honor. Joe Gratz
11 from Morrison & Foerster for Internet Archive.

12 THE COURT: OK. I am familiar with the papers, I will
13 listen to argument. It is not necessary to repeat everything
14 you said in the lengthy papers.

15 So, unless the parties have otherwise agreed, these
16 are cross-motions for summary judgments. I will listen to the
17 plaintiff first.

18 MS. McNAMARA: Thank you, your Honor.

19 At the outset, your Honor, and since you are familiar
20 with the papers I really want to step back and very briefly
21 address two overarching issues central to this action.

22 First, the very foundation to controlled digital
23 lending and Internet Archive's fair use defense is the fiction
24 that physical or print books are one in the same as digital
25 books, that's IA argues that there is no difference between

N3K5hacA

1 someone checking out the print book or a digital version of
2 that same book. Thus they claim there is no harm, no foul, to
3 engage in the mass reproduction of physical books, transforming
4 them to digital works and distributing them entirely on the
5 Internet. But IA now admits that the central thesis to CDL is
6 false. Indeed, to press their transformative use argument, IA
7 argues the exact opposite, that digital books are materially
8 more valuable because they provide greater efficiencies and
9 allow readers to check out books from home or on the go. But,
10 put simply, the IA cannot have it both ways. The reality is
11 that Internet Archive, via CDL, is usurping that greater value
12 by creating unauthorized eBooks without paying the customary
13 fees, the exact fees regularly paid by thousands of libraries
14 across the country when they license authorized eBooks, fees
15 that, in turn, compensate authors. In short, CDL is built on a
16 fallacy that does not withstand scrutiny and this record
17 defeats CDL as a theory and as a fair use.

18 Second, your Honor, no law supports IA's mass
19 duplication and digitization of millions of books to distribute
20 the entire works for the identical purpose that they were
21 originally published: To be read. And, for good reason. If
22 IA's conduct was sanctioned it would eviscerate the rights and
23 controls of the copyright holders. Indeed, the Second Circuit
24 in *Authors Guild v. Google*, foreshadowed the very fact pattern
25 before this Court and said a claim based on an infringer who

N3K5hacA

1 converted books into a digitized form and made that digitized
2 version available to the public would be strong.

3 IA is well aware that case after case has rejected
4 mass duplication schemes when they deliver the works for the
5 same purpose as originally published, whether books or music or
6 movies or television. In short, IA is not asking this Court to
7 enforce or follow the law, it's asking this Court to change the
8 law. And this is all by design, your Honor. Brewster Kahle,
9 IA's founder and funder, is on a mission to make all knowledge
10 free and his goal is to circulate eBooks to billions of people
11 by transforming all library collections from analog to digital.
12 But IA does not want to pay authors or publishers to realize
13 this grand scheme and they argue it can be excused from paying
14 the customary fees because what they're doing is in the public
15 interest. But IA is well aware that this is not the correct
16 forum.

17 The Second Circuit was faced with similar arguments in
18 *Capitol Records v. ReDigi* where IA, as an amici, pressed the
19 Second Circuit to expand the first sale doctrine in Section 109
20 of the Copyright Act via fair use or otherwise, to a digital
21 first sale. The Second Circuit declined ReDigi's and IA's
22 invitation pointedly saying: If ReDigi and its champions have
23 persuasive arguments to support the change of law they
24 advocate, it is Congress they should persuade. We reject the
25 invitation to substitute our judgment for that of Congress.

N3K5hacA

1 Yet, Internet Archive is back again asking this Court
2 to do what the Second Circuit refused to do. This Court should
3 reject IA's same invitation. In short, no facts or laws
4 support IA's fair use defense and it should be summarily
5 rejected.

6 Now I will turn --

7 THE COURT: Oh.

8 MS. McNAMARA: Go ahead.

9 THE COURT: I thought you were done.

10 MS. McNAMARA: No. I was going to turn to the four
11 factors and dig in a little deeper, if that's OK, your Honor.

12 THE COURT: OK. Briefly.

13 MS. McNAMARA: OK. Well, I think the critical thing I
14 want to say on the transformative use issue, your Honor, is
15 that IA admits that it is not engaging in any transformative
16 use in the typical way but it, instead, relies on *Google Books*
17 *v. TVEyes* and *ReDigi* where it was recognized that if you
18 utilize technology to achieve the transformative purpose of
19 improving the efficiency of delivery of content it can be a
20 fair use, but the problem is that IA ignores the actual
21 holdings of each of those cases that it relies on. And, even
22 more importantly, it ignores that for a use to be
23 transformative under the utility theory, it only applies where
24 the challenged use served a different function or purpose. And
25 they admit here that there is no different function or purpose,

N3K5hacA

1 they are doing precisely what the Second Circuit said you
2 should not do which is to merely re-package or re-formulate the
3 work in the paradigmatic version of a derivative work where the
4 Courts found that was not utilization.

5 Judge Leval specifically reinforced the precise point
6 from *TVEyes* that in order for something to be, to address, to
7 be a utility-expanding use, it needs to have a different
8 function; it cites *HathiTrust* and its search function, or the
9 Fourth Circuit by *Paradigm*, or the *Perfect Pens* case in the
10 Ninth Circuit with the thumbnails, or *Sony*, which of course
11 Internet Archive tries to argue is directly on point. But, in
12 fact, *Sony* merely dealt with individual one-time time shifting
13 and the Supreme Court made it clear, it defined the term "time
14 shifting" to be a one-time use. *Sony* did not deal with
15 distribution, it merely dealt with one-time reproduction. And,
16 in fact, every case that has addressed massive duplication and
17 format shifting, like what Internet Archive is doing here, has
18 found it to be not a fair use. That's *UMG* out of the Southern
19 District, *Napster* out of the Ninth, the *Gregory* case out of the
20 First, or most importantly I think the *VidAngel* case out of the
21 Ninth Circuit.

22 Internet Archive asks this Court to ignore this
23 consistent body of law because it claims that the Second
24 Circuit has more recently adopted a more expansive view of the
25 transformative uses but, as your Honor is well aware, the

N3K5hacA

1 Second Circuit does not exist on an island with a unique
2 approach, nor has it departed from its consistent holdings
3 finding no fair use when works are duplicated and made
4 available for the precise same purpose as they were originally
5 published whether it be *Infinity*, *Weissman* or *TVEyes* or *ReDigi*.

6 So here, in short, there is really nothing
7 transformative by IA's mass reproduction of plaintiffs' works
8 that now exceed 33,000 and growing and delivering them to the
9 world to be used for the same purpose that the plaintiffs are
10 marketing these works.

11 I don't think I need to touch on the second and third
12 factors, your Honor, which clearly weigh strongly in favor of
13 the plaintiffs. And on the commercial use issue under the
14 first factor, I would simply note that there is no dispute that
15 IA is using the plaintiffs' works in order to generate more
16 attention, more readership, more users, and those are the
17 precise types of benefits that can be given to a defendant and
18 weigh against them under the commercial use. As the First
19 Circuit pointedly said, they don't need to line their pockets
20 with money in order to achieve a benefit under the first use.
21 And that's what the --

22 THE COURT: Can I --

23 MS. McNAMARA: Sure.

24 THE COURT: Let me just stop you there just for a
25 moment.

N3K5hacA

1 MS. McNAMARA: Sure.

2 THE COURT: What Second Circuit cases do you rely on
3 to say that the use here was commercial?

4 MS. McNAMARA: I think the most on point case out of
5 the Second Circuit, your Honor, is *Weissmann v. Freeman* where
6 it was an academic situation and it was recognized that the
7 defendant was not achieving money by appropriating another
8 student's paper and holding it out as his own but it was he was
9 achieving benefits through status, tenure, and the like and
10 that that was sufficient to tilt the first factor on that
11 element against them.

12 THE COURT: And that's how you would also say that
13 this isn't really a non-profit educational purpose within the
14 meaning of fair use?

15 MS. McNAMARA: Yes, your Honor. It is a non-profit
16 entity, although as we have spelled out in great detail in the
17 papers, it has many commercial elements that earn to the
18 benefit of growing their site and so in that way there are
19 commercial benefits as well, whether it be they're entwining
20 with the for-profit entity Federal Books, or the commercial
21 benefits that they achieved by the \$35 million in scanning
22 books, but I think mainly it is really that on the backs of the
23 plaintiffs' works they achieve greater recognition and growth
24 and users and that is a benefit under, as I said *Weissmann*, as
25 well out of the Ninth Circuit the *Worldwide Church* which

N3K5hacA

1 recognized growth in membership as well as the *Gregory* decision
2 out of the First Circuit. And so, for that reason, we would
3 say that the commercial/non-commercial distinction does not
4 benefit Internet Archive in addition to not being
5 transformative.

6 THE COURT: OK. Go ahead.

7 MS. McNAMARA: Turning briefly to market harm, your
8 Honor -- well, I would just say on factors two and three,
9 clearly all the works are highly expressive including some of
10 this country's most iconic works and those are at the core of
11 what the Copyright Act was intended to protect, and there is
12 also no dispute that the entire works are copied and
13 distributed in full so both those factors should weigh in favor
14 of the plaintiff.

15 THE COURT: You also include non-fiction works
16 including the works in suit, don't you?

17 MS. McNAMARA: Yes, your Honor. There are claimed
18 non-fiction works which are equally protected as well as
19 fiction. It is "Blink" by Malcolm Gladwell and countless other
20 non-fiction works.

21 THE COURT: OK. Go ahead.

22 MS. McNAMARA: Now, on the market harm issue of
23 course, as your Honor is well aware, it intersects with the
24 first factor and whereas here, there is really no
25 transformative use then the market harm is -- and where there

N3K5hacA

1 is direct substitution which plainly exists here, the market
2 harm necessarily tilts towards the plaintiffs. But here there
3 is no dispute on the record that the plaintiffs have lost
4 significant, massive, millions of dollars in licensing revenues
5 because IA admits that there is a thriving eBook market where
6 publishers license eBooks to libraries and this market is
7 predicated on licensing revenues. And there is no dispute that
8 the publishers earn tens of millions of hundreds of millions of
9 dollars in licensing revenues to the library market alone,
10 setting aside the commercial eBook market. And IA doesn't
11 dispute that it refuses to pay any license fees and it hasn't
12 paid any for the 33,000-plus works of the plaintiffs that exist
13 on their website. But IA's admissions I think, importantly, do
14 not stop there. They not only admit that it fails to pay the
15 customary license fees, it also admits that it actively
16 encourages legitimate libraries to not license eBooks. IA's PR
17 campaign to bring libraries into Open Libraries Project,
18 include such entreaties as *'You don't have to buy it twice'*
19 expressly telling them to not license the works from the
20 plaintiffs or OverDrive.

21 On this record, therefore, there is no question that
22 there is substantial market harm from lost license fees and
23 this is the precise type of evidence that the Second Circuit
24 considered in *TVEyes* to find that the fourth factor weighed in
25 plaintiff's favor. And in *TVEyes* --

N3K5hacA

1 THE COURT: Let me just stop you there.

2 I understand the argument for every scanned copy of a
3 book there is no license fee paid to the publisher and there is
4 no eBook being bought from the publishers. You say all of
5 that's undisputed. Wouldn't the defendant say there is no
6 indication that the libraries would have otherwise purchased an
7 eBook so there is no evidence of actual harm? And on the other
8 hand, there are all of defendants' experts who say there has
9 been no net loss to the publishers because their revenues have
10 been going up, there is no evidence that they have actually
11 lost revenue in terms of the bottom line and you all dispute
12 those assertions in the dueling 56.1 statements. So, aren't
13 there issues of fact on the question of whether the publishers
14 have in fact been harmed?

15 MS. McNAMARA: No, your Honor, because as I think you
16 have just -- I think -- very well laid out, there is two forms
17 of harm asserted by the plaintiffs, one is the lost license
18 fees and the fact that they haven't paid license fees for these
19 works is not disputed, they don't dispute that, and it is not
20 disputed that if they had acquired the works that they're
21 distributing via an authorized fashion, those fees would have
22 been paid and the plaintiffs have been deprived of those fees
23 so that harm is real.

24 THE COURT: Let's stop there just for a moment.

25 There is also no evidence that the defendants would

N3K5hacA

1 have paid those license fees, no evidence that they would have
2 bought the eBook were it not otherwise available to them for
3 free, right?

4 MS. McNAMARA: Well, if I am understanding you
5 correctly, are you voicing their position that there is no
6 licensing market for CDL?

7 THE COURT: Either that, or that simply there is no
8 evidence what the defendants would have otherwise paid to the
9 plaintiffs for the ability to make the eBook.

10 Do you follow?

11 MS. McNAMARA: Yes, I do follow, your Honor and --

12 THE COURT: I fully understand. I mean I fully
13 understand your argument. I mean your argument is there is a
14 market for eBooks and that is the relevant market, and by
15 scanning the publishers' works the defendants are depriving the
16 plaintiff of those licensing fees. But you began this argument
17 by saying this is all undisputed. Whether there would in fact
18 be licensing fees is a question, isn't it?

19 MS. McNAMARA: No, your Honor. I think another way of
20 saying that is would they enter into the license, and that is a
21 question, but that's a question that the Courts resolve in the
22 plaintiff's favor. That was the very case in *TVEyes*, your
23 Honor, where it was argued, *'Well, we tried to enter into a*
24 *license'* or *'You wouldn't agree to a license with us'*, and the
25 Court says it doesn't matter whether you would agree to the

N3K5hacA

1 license that was offered or not. That's not the issue. The
2 issue is that the market exists, it is extant, it is thriving,
3 and you are refusing to participate in that market and because,
4 like, let's say you don't like the price or you don't like the
5 terms, the answer to that is not that you steal it. That is
6 basically IA's answer, is that we don't like that market, we
7 don't want to pay it, it's not in our interest to pay it, and
8 so we are entitled to just duplicate your work without
9 authorization and distribute it to the world. Well, that isn't
10 the way the law works and it is not the way we work in markets.

11 THE COURT: OK.

12 MS. McNAMARA: And --

13 THE COURT: The other question that I posed is what do
14 you do with all of the alleged statements of undisputed facts
15 that the defendants put forth that there is no ultimate harm to
16 the plaintiffs because their total revenues have been going up,
17 there is no evidence that they would have had a greater bottom
18 line were these scanned books not been available without the
19 license.

20 Follow me?

21 MS. McNAMARA: Yes, your Honor.

22 First of all, they put forth two experts, one was
23 Dr. Reimers, whose study merely looked at sales of print books
24 based on Amazon best seller lists and this motion addresses the
25 eBook market, both commercial and library. So, Reimers' study

N3K5hacA

1 is really not even relevant in any way to this analysis.

2 So then with Jorgensen's study, which is what I think
3 you are specifically referencing, they include what they call
4 his natural experiment using data from the few months that the
5 Internet Archive had the National Emergency Library open during
6 the early days of the pandemic when IA threw out any pretense
7 of controls on CDL. But this natural experiment used by
8 Jorgensen involved the most unnatural data. Jorgensen takes 25
9 works published by Hachette and compares their checkout data on
10 OverDrive from the second quarter of 2020, when NEL was
11 operating, and the third quarter of 2020, after the lawsuit was
12 filed and the works in suit were removed. But Jorgensen
13 ignores and provides no controls for the fact that the second
14 quarter of 2020 was when the world was shut down because of
15 COVID and the publishing industry saw an unprecedented increase
16 in eBook sales or licenses as people were stuck at home and
17 were scrambling for books or anything to do. And as the world
18 began to open up in Q3, the increase that your Honor was just
19 referencing was that was -- that was the increase in Q2. Once
20 we got to Q3 when they compare it, the sales and checkouts on
21 OverDrive, as well as elsewhere, reverted to norm, thus the
22 supposed average downturn that Jorgensen saw in Q3, which he
23 says shows that there was no harm, can't logically be
24 attributed to or even associated with the National Emergency
25 Library shutdown and that is one of the many glaring problems

N3K5hacA

1 with Jorgensen's.

2 But the Court doesn't have to say, you know, resolve
3 the dispute over admissibility of Jorgensen's work on this
4 motion because the Court has two other means of finding that
5 there is significant market harm that weighs in the plaintiffs'
6 favor. The first is what I already described was the lost
7 license fees, and the second is as *ReDigi* underscored, that the
8 fourth factor's focus is whether the copying at issue brings to
9 market a competing substitute. Here there is no dispute that
10 what Internet Archive is offering is a competing substitute if
11 the quality isn't the same as the plaintiffs' authorized eBooks
12 which only underscores why this whole utility of transformative
13 use argument carries so little weight. But there is no dispute
14 that it is a substitute, people check out the books and can
15 read them which is the very purpose that the plaintiffs provide
16 their works. Thus, the bottom line is that the law dictates
17 that when there is a free alternative for the essentially the
18 same product and when that becomes widely available, the
19 copyright owner will necessarily suffer. And case after case
20 recognizes this common sense reality that you cannot compete
21 with free. That was found in *Napster*, in *ReDigi*, in *Gregory*,
22 and elsewhere. And it is important, I would say, I think in
23 closing, your Honor, on the license --

24 THE COURT: Let me just pause there.

25 MS. McNAMARA: Sure.

N3K5hacA

1 THE COURT: Your position is you disagree with the
2 defendant's experts, you say that there are disputed issues of
3 fact with respect to the defendant's experts but I don't have
4 to resolve those disputes in connection with this motion.

5 MS. McNAMARA: Correct, your Honor; because of the
6 fact that they are offering a competing substitute and because
7 of the irrefutable damage and loss of the licensing fees. And
8 what I wanted to say about the licensing fees, your Honor, is
9 that what exists right now with the Open Libraries Project,
10 only eight or nine public libraries have signed on to join
11 Internet Archive in this endeavor, yet there are more than
12 9,000 library systems in the United States, if even relatively,
13 you know, if a significant percentage of those libraries were
14 to sign on and join Internet Archive in their CDL and their
15 appropriation of works, the damage to the plaintiffs would be
16 extraordinary, it would be massive, and that is precisely the
17 type of looking forward that was done in *TVEyes* with Fox, where
18 they had a nascent market but the Court recognized that there
19 would be millions of dollars in damages if it was given the
20 green light and allowed. And that is precisely what would
21 happen here, your Honor. If CDL and Internet Archive's actions
22 were given the green light, the damage to the publishers and
23 damage to creators and the damage to authors would be beyond
24 measure.

25 THE COURT: What relief do you seek on this motion?

N3K5hacA

1 MS. McNAMARA: We seek a finding of liability, your
2 Honor, and the issuance of a permanent injunction.

3 THE COURT: Are there any issues with respect to
4 damage, statutory damages, and the like?

5 MS. McNAMARA: Well, your Honor, the plaintiff has
6 moved on Section 504 under statutory damages which I am happy
7 to address. Would you like me to briefly address that?

8 THE COURT: No. I realize that there is a dispute
9 with respect to that. My question really goes to the formation
10 of a judgment. I would have thought that there are issues that
11 couldn't be resolved on this motion with respect to, for
12 example, you say we are looking for an injunction. What the
13 scope of the injunction would be is something that is really
14 not discussed so far as I can recall in the papers. The issue
15 of whether there should be statutory damages or whether there
16 is an exception for good faith in this case for statutory
17 damages is something that's argued out but I would have thought
18 that all of the issues with respect to the formation of an
19 appropriate judgment are really not laid out, so far as I could
20 tell, in the papers. I would have thought that that's a
21 separate issue to be decided subsequently.

22 MS. McNAMARA: Yes, your Honor. I mean, I think that
23 I would opine two things or observe two points on that. Yes, I
24 think the primary purpose of this motion is for liability as a
25 finding of liability. I would think that with the finding of

N3K5hacA

1 liabilities the parties could work together on what judgment
2 might be the appropriate one to issue, and if there are
3 disputed issues surrounding that then we would come before your
4 Honor to hopefully get those resolved in one way or another.
5 But, the primary issue on this motion is liability. We do
6 think that given the liability and given the irreparable harm,
7 that injunctive relief is fully warranted and could be issued
8 and the parties would be prepared -- or at least we, as the
9 plaintiffs, would be prepared to provide your Honor with
10 proposed language for an injunction.

11 THE COURT: OK. Thank you.

12 MS. McNAMARA: Thank you.

13 THE COURT: All right. Let me listen to the
14 defendants. Mr. Gratz?

15 MR. GRATZ: Thank you, your Honor. Good afternoon.
16 Joe Gratz with Morrison & Foerster representing the Internet
17 Archive.

18 We are here today to determine who controls the future
19 of library lending: Big publishers or librarians.

20 Controlled digital lending allowed libraries to do
21 digitally what they have always done physically: To loan a
22 book they own to one patron at a time. Now, loaning a book
23 digitally by its nature involves making copies. That is why
24 the question in this case is one of fair use rather than an
25 application of Section 109. The question is whether that

N3K5hacA

1 copying, which is incidental to loaning the books a library
2 owns, is fair use. Fair use ensures that copyright extends
3 only as far as is necessary to provide incentives for creation
4 and that it does not extend further. Allowing libraries to
5 lend books they own to one patron at a time serves copyright's
6 purpose of aiding the creation and dissemination of knowledge.
7 And lending books by more efficient technological means does
8 not offend the purposes of copyright. Instead, it more
9 effectively furthers those purposes.

10 So, I want to turn now to the first fair use factor
11 and in addressing these I will touch on a number of the points
12 that Ms. McNamara discussed.

13 First, with respect to commerciality, the use is
14 wholly non-commercial. Internet Archive is a 501(c)(3) public
15 charity and doesn't take in any revenue from digital lending.
16 We aren't doing this to benefit ourselves, like any other
17 library, we are doing this to benefit the public by acquiring
18 books at our own expense and making them available to patrons
19 at our own expense. Publishers identify some other programs at
20 Internet Archive that do bring in revenue, but those don't have
21 anything to do with lending.

22 To address the *Weissmann* case which that Ms. McNamara
23 identified and cited for the first time in the publishers'
24 reply brief, a few points on that case, your Honor. First,
25 that was a case between two academics about gaining status and

N3K5hacA

1 tenure and so on, and those things in the academic world are
2 the equivalent of gaining dollars, right? They translate into
3 dollars in the academic world and that was the basis for the
4 ruling in *Weissmann*, that there was some level of
5 commerciality. That is not true here, right? Lots of people
6 want to take books out from our library but that does not make
7 our use commercial and it doesn't cause some monetary benefit
8 to -- ultimately in our job.

9 The last point I want to make on the *Weissmann v.*
10 *Freeman* case is that it predates the Supreme Court's *Campbell*
11 opinion in which the Supreme Court gave us some of sort of the
12 modern guidance about how to speak about commerciality in the
13 context of the first factor. And so, that's why we don't there
14 I the *Weissmann* case stands for the proposition that any time a
15 fair user has a reason to want to do what they're doing, or
16 ends up in any way along any axis better off because they
17 engaged in fair use, that that means that the fair use was
18 commercial in nature. That would sweep in almost every
19 non-commercial phase.

20 Second, turning from the commerciality question --
21 unless there is anything your Honor would like to discuss about
22 it -- to the question of transformative rights.

23 This use is transformative and it is transformative in
24 a specific way. It is transformative in the same way that the
25 use in *Sony* was transformative. As the *TVEyes* case said, it

N3K5hacA

1 utilizes technology to achieve the transformative purpose of
2 improving the efficiency of delivering content without
3 unreasonably encroaching on the commercial entitlements of the
4 rights holder. And, as Judge Leval later explained in the
5 *ReDigi* case, that it was achieved without unreasonably
6 encroaching on commercial entitlements of the rights holder
7 because the improved deliveries was to one entitled to receive
8 the content.

9 Libraries are entitled to lend books they own and
10 patrons are entitled to read the books they have borrowed, and
11 for that reason utilizing this technology to more efficiently
12 lend books is a transformative purpose in the Second Circuit as
13 case law.

14 THE COURT: Could I just stop you there?

15 MR. GRATZ: Yes, your Honor.

16 THE COURT: Who do you analogize yourself to in the
17 *Sony* case? Do you analogize yourself to *Sony* or do you
18 analogize yourself to the home viewer who was otherwise
19 entitled to watch the free television program and who did the
20 time shifting?

21 MR. GRATZ: So, in sort of technical doctrinal terms,
22 your Honor, I think we are analogous to the home user since
23 they were the one making the copy in that circumstance and we
24 are the ones making the non-commercial copy in this
25 circumstance and we are --

N3K5hacA

1 THE COURT: But --

2 MR. GRATZ: Yes, your Honor?

3 THE COURT: So, if you analogize the library to the
4 home viewer, it was clear that the home viewer would time shift
5 in order to be able to view the program at another time, but it
6 was clear in *Sony* that the Court distinguished that home viewer
7 from making the copy, if you will, available, to the general
8 public. Here, the libraries make the copy which are then
9 available to anyone who wishes to get a copy under specific
10 terms of the eBook. That seems to be very different from the
11 individual home viewer who simply time shifts in order to be
12 able to see, at a more convenient time, the program that the
13 home viewer could have otherwise seen at the more awkward time.
14 And --

15 MR. GRATZ: Two options.

16 THE COURT: Hold on. Hold on. Hold on one SEC?

17 MR. GRATZ: I'm sorry, your Honor.

18 THE COURT: It appears that the Courts who have read
19 *Sony* have been careful to limit *Sony* to that individual use
20 rather than availability to the "general public," and it is
21 clear that there was language in *Sony* itself which made it
22 clear that with respect to copyright infringement, it was
23 looking solely at the individual home viewer.

24 Go ahead, your turn.

25 MR. GRATZ: Placing, your Honor, I think the lens with

N3K5hacA

1 which to view *Sony* is the lens through which the *TVEyes* and
2 *ReDigi* cases discussed it, and the question that those cases
3 asked is whether the viewer was entitled to do what they were
4 doing to view this, and this was just making that process --

5 THE COURT: Didn't *ReDigi* and *TVEyes* make it clear
6 that *Sony* was not about distribution to the general public?

7 MR. GRATZ: Well, so I don't think that *ReDigi* and
8 *TVEyes* drew that line, partially because the way that they
9 talked about *Sony* as was a case of utilizing technology to
10 achieve the transformative purpose of improving the efficiency
11 of delivering consent. And read that way, that was both -- in
12 the *Sony* situation that was both something that the individual
13 user was doing, whose fair use was being analyzed, and in that
14 situation it was something that *Sony* would do.

15 THE COURT: But *ReDigi* and *TVEyes*, in both cases,
16 found no fair use.

17 MR. GRATZ: They did. They found, on the balancing
18 all of the factors, that there was no fair use, that's right,
19 your Honor, in those commercial situations.

20 THE COURT: OK. And *ReDigi*, I thought, made it
21 reasonably clear, that if you copied the entire work and made
22 the entire work available, that would not be fair use.

23 MR. GRATZ: Well, I don't think that's what *ReDigi*
24 stands for, your Honor. I think *ReDigi* -- there are certainly
25 situations in which making the entirety available to someone is

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1 fair use. *HathiTrust* gives us one such example.

2 THE COURT: And *Google*. But let's finish with *ReDigi*
3 before we get to *Google Books*.

4 OK. Go ahead.

5 MR. GRATZ: Certainly.

6 The situation in *ReDigi* was one that the Court found
7 to be minimally transformative and found not to be fair use,
8 thus the things for which we are reciting *ReDigi* in the context
9 of our transformative argument is its discussion of *Sony*, in
10 particular its further explanation of the *TVEyes* gloss on *Sony*
11 telling us how the Court of Appeals understands *Sony* in the
12 context of transformativeness. I agree with you, your Honor,
13 that were we doing what *ReDigi* is doing, that is, operating a
14 commercial service for the resale of digital goods, that would
15 fall directly into *ReDigi*.

16 THE COURT: So, how do you distinguish, other than by
17 saying it is dicta, the comments by the Court of Appeals in
18 *Google Books* which appeared to say that there would be a strong
19 case for copyright infringement and not fair use if *Google* had
20 not only copied all of the works but made the works available,
21 not simply as a means of searching for individual terms and
22 snippets but a way of accessing the entire work. There would
23 be a strong case that that would not be fair use.

24 MR. GRATZ: We don't disagree, your Honor, with the
25 idea that if you take the exact facts of *Google Books*, that is,

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1 snippets were available to any number of people concurrently at
2 any given time, made available by a commercial company, right?
3 If you take those facts and you sort of enlarge the snippet to
4 the size of the entire book, that would present -- we agree
5 with the Court that that would present a very difficult case
6 for fair use. That is not what happened here. This issue is
7 not just that it is dicta, the issue is that it is discussing
8 the situation that doesn't match the facts here and doesn't
9 match the most important fact which is that what Internet
10 Archive is doing is stimulating the limitations of physical
11 lending through its digital lending program, rather than the
12 thing the Second Circuit was talking about in *Google Books*
13 which is making the entire book available to a limited number
14 of people concurrently.

15 THE COURT: Wait.

16 MR. GRATZ: And I would add, in *Google Books*, Google
17 didn't own a copy.

18 THE COURT: But I had thought that one of the points
19 of *Google Books* was to say if you copied the entire work and
20 then made it available, that would be a strong case of
21 copyright infringement and not fair use. In this case Internet
22 Archive copies the entire work, it has a right to the work, but
23 it has not received a license to duplicate the work, to
24 reproduce the work. What comparable case is there that a
25 person who has the right to the work, has the author's or

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1 publisher's right to reproduce the work? Which is at the core
2 of what IA does.

3 MR. GRATZ: I point, your Honor -- I'm sorry, your
4 Honor.

5 THE COURT: No, I appreciate that. That's one of the
6 problems of a telephone conference but you are very polite and
7 I appreciate it.

8 I realize that in your papers you are trying to
9 analogize to other situations but, at its starkest, what is
10 happening is IA has a book and without a license it reproduces
11 the book, which it then lends out, it lends out the eBook, the
12 scanned copy of the book which it retains. Is there any
13 comparable case which says that that is permissible fair use?

14 MR. GRATZ: There is, your Honor. Obviously I want to
15 start by emphasizing that there would be no need to talk about
16 fair use if there was not a reproduction occurring, right,
17 without a license. That is the sort of -- that is the reason
18 we are discussing fair use at all, and as to your Honor's
19 question what is the case --

20 THE COURT: Wait a minute.

21 MR. GRATZ: I think --

22 THE COURT: Wait a minute.

23 MR. GRATZ: I think the closest case is *HathiTrust*.

24 THE COURT: But that was found not to be fair use.

25 MR. GRATZ: That was found to be fair use, your Honor.

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1 THE COURT: I'm sorry. Yes, it was, but the entire
2 work was not made available. Yes, they --

3 MR. GRATZ: It was, your Honor.

4 THE COURT: OK. I will go back. *HathiTrust* was the
5 predecessor to *Google Books*.

6 MR. GRATZ: That's right, your Honor, and I want to
7 particularly direct your Honor's attention to the second half
8 off the second fair use analysis in the *HathiTrust* case which
9 is addressing not the situation of developing a searchable
10 database, which is very similar to the *Google Books* situation,
11 but the situation of making available complete books to library
12 patrons where those library patrons had print disability. And
13 obviously that is not precisely what is going on here because
14 on the one hand they were not limiting the number of copies to
15 the number of copies they had, as we do, to simulate lending,
16 physical lending, but also the --

17 THE COURT: In *HathiTrust* -- at least my
18 understanding, I will go back and check -- was also a question
19 of the ability to find things in works that had previously been
20 published so the works were put into a database but the
21 database didn't allow users to view any portion of the books
22 that they were searching. And if that's right, it's not nearly
23 analogous to what IA does here.

24 MR. GRATZ: I agree.

25 THE COURT: Here the entire book is available and the

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1 book was not available in *HathiTrust*.

2 MR. GRATZ: So I agree with your Honor that the book
3 was not available.

4 THE COURT: I will certainly double-check again
5 *HathiTrust*, but then my question remains for the most
6 analogous -- and of course *HathiTrust* preceded *Google Books*
7 where *Google* had the language from the Court of Appeals that
8 there would be a strong case if the entire work were made
9 available. But, is there any other case that is closely
10 analogous to what *IA* does here where a Court has found that's
11 fair use?

12 MR. GRATZ: I want to begin by just noting, just so
13 your Honor can write it down --

14 THE COURT: Hold on one second?

15 MR. GRATZ: Yes.

16 THE COURT: You are very -- I have said before that
17 you are very good and very polite and I appreciate that, but I
18 also appreciate my question being answered first and then
19 giving me the explanation second. So, we have gone over
20 *HathiTrust* and the question remains what case do you rely on as
21 most analogous which says that what *IA* was doing here was fair
22 use.

23 MR. GRATZ: The most factually analogous case is
24 *HathiTrust* in the factual situation presented at page 101 and
25 thereafter in the case. I agree with your Honor that the

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1 factual situation presented in the earlier part of the opinion
2 with respect to a searchable database is not closely analogous
3 to the situation, though I hasten to add Internet Archive has
4 done that as well like *HathiTrust* is engaged in the scanning
5 for the purposes of making a searchable database, as well as,
6 in *HathiTrust*, making the entire book available under
7 particular conditions.

8 THE COURT: And, as I understand it, the plaintiffs
9 haven't challenged, at least on this motion, those kinds of
10 search.

11 MR. GRATZ: That's right. They do not challenge
12 search and I think importantly they challenge only with respect
13 to the 127 books they chose, all of which are available for, in
14 OverDrive.

15 THE COURT: OK. Any other case than *HathiTrust*?

16 MR. GRATZ: If your Honor is looking for factual, sort
17 of very closely analogous factual situations, we think that
18 *HathiTrust*, and particularly the second half of *HathiTrust*,
19 presents the strongest one. I agree that there have not been
20 many litigated cases about the breadth of non-profit libraries'
21 rights to lend or otherwise make available materials in books
22 they own, in our view that's because there hasn't been much
23 question that libraries making available --

24 THE COURT: Wait a moment. Wait a moment. Wait a
25 moment. Wait a moment.

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1 That, of course, elides the issue to say that this
2 case is about the ability of a library to lend a book that it
3 owns. It ignores whether the library has a right to copy
4 wholesale, the book, which it otherwise owns. Does the library
5 have the right to lend a book that it owns? Of course. That's
6 not the issue in the case. Does the library have the right to
7 make a copy of the book that it otherwise owns and then lend
8 that eBook, which it has made, without a license, and without
9 permission, to patrons of the library?

10 To formulate the issue in this case as simply does a
11 library have a right to lend a book that it owns elides the
12 issue in the case, doesn't it?

13 MR. GRATZ: We think these issues are very closely
14 related, your Honor, that is, the question whether a library
15 has a right to lend a book it owns is, we think, a very
16 important one, and we agree with you that the answer is
17 obviously "yes." We agree that the question whether the
18 library has the right to lend the physical book, physically,
19 does not necessarily answer the question, in every case, does
20 the library have the right to lend to one person digitally when
21 they are not lending out the physical book physically.

22 THE COURT: Wait, wait, wait. You keep avoiding the
23 question. Right? You avoid the question of whether the
24 library has the right to reproduce the book that it otherwise
25 has a right to possess which is really at the heart of the

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1 case, right? The publisher has a copyright right to control
2 reproduction so every time you formulate the issue as simply
3 does a library have the right to lend a book that it owns
4 without saying does the library have the right to reproduce
5 that book without a license, without permission, without the
6 payment of a license fee, you ignore the central issue in the
7 case, don't you?

8 MR. GRATZ: Let me reformulate our position in this
9 way then, your Honor.

10 It is our position, first, that a library has a right
11 to physically lend a book; and second, that a library has the
12 right, under fair use, to make whatever copies are necessary to
13 facilitate digital lending of that book, so long as there is
14 only one patron at a time who can borrow the book for each copy
15 that the library has bought and paid for.

16 THE COURT: OK. Let's pause on that then. What case,
17 do you think, that supports that proposition? Is it *HathiTrust*
18 at page 101? OK. I will go back again to *HathiTrust* which
19 did, of course, precede *Google Books*. But, any other case
20 which is remotely on point for that proposition?

21 MR. GRATZ: I think the best case is *HathiTrust* at
22 101. I think we have discussed the *Sony* case and the extent to
23 which it is or is not analogous, but we think it stands for the
24 proposition that copies that are made in furtherance of doing
25 something that otherwise is ever concededly lawful, getting the

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1 work to someone who is entitled to see or read it, are copies
2 copying that is privileged under fair use.

3 And there is a further line of case --

4 THE COURT: Could I just -- why doesn't that
5 completely undercut the copyright holder's right to prevent
6 reproduction other than with a license?

7 MR. GRATZ: Every fair use involves reproduction
8 without the consent of the copyright holder without a license,
9 and every litigated fair use involves a situation where the
10 copyright holder so strongly disapproves that they have filed
11 suit. So, the facts that the --

12 THE COURT: That's a fair point.

13 MR. GRATZ: And that is why fair use takes into
14 account -- fair use is sort of capacious and takes into account
15 the purpose of the use which, in *Sony*, as here, is getting the
16 work to someone who is entitled to get at it, albeit in a way
17 that the copyright holder does not wish for it to be gotten to
18 that person, there by videotaped time shifting, and here by
19 digitizing and making available a digital copy while
20 withholding a physical copy from circulation.

21 THE COURT: Go ahead.

22 MR. GRATZ: And so, your Honor --

23 THE COURT: Could I --

24 MR. GRATZ: Go ahead, your Honor.

25 THE COURT: It is a related point but is it fair that

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1 you are not relying on the first sale doctrine under
2 Section 109?

3 MR. GRATZ: It is correct that we are not relying on
4 Section 109. We think that the common law of exhaustion
5 provides further support for the idea that what we are doing is
6 something that is favored under the first factor because
7 lending a book is one of the incidents of ownership and
8 engaging reproduction that is sort of merely incident to
9 exercising the incidence of ownership is something that common
10 law exhaustion approved of, for example, in the *Doan v.*
11 *American Book* case that we cited in the papers. But it is
12 correct that we are not -- we do not independently rely on
13 Section 109, just on the common law doctrine from which it
14 arose.

15 THE COURT: OK. *Doan* is over a hundred years old.
16 Any other case other than *Doan* that you rely on for the notion
17 that your concept of reproduction in the common law first sale
18 doctrine supports you in this case?

19 MR. GRATZ: There are not directly cases on point,
20 your Honor. The other authority to which we would direct your
21 Honor is the legislative history of Section 109 which indicates
22 that it intends not to disturb the common law and, in
23 particular, reaffirms that libraries are entitled to lend
24 books, although I recognize they are talking about physical
25 lending. We think that the clear entitlement to make a

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1 particular book available to a particular patron justifies the
2 incidental copying that is necessary to do that digitally.

3 THE COURT: And *ReDigi* seemed to be fairly clear that
4 Congress, by adopting 109, has formulated the metes and bounds
5 of the first sale doctrine and that any other changes should
6 come from Congress and not from the courts. So whatever the
7 legislative history shows with respect to 109, 109 states the
8 law according to the Court of Appeals that shouldn't be changed
9 without Congress otherwise amending 109 or passing another
10 statute.

11 MR. GRATZ: That is right as to a defense under
12 Section 109 and we are not asserting a defense under
13 Section 109. We are asserting that --

14 THE COURT: You are saying that the concept behind
15 Section 109 should be read into the fair use factor.

16 MR. GRATZ: We are, your Honor, in the same way that
17 the concept behind, for example, Section 121 was read into the
18 first fair use factor in the post-page 101 portion of the
19 *HathiTrust* opinion. There, there was a specific enumerated
20 exception for certain activities because they served a certain
21 purpose and the Court -- and the activity that the defendant
22 engaged in fell outside the specific contours of the statutory
23 language and the Court held that, nonetheless, the existence of
24 that statute was -- that what the defendant was doing was in
25 furtherance of the purposes of that statute even though it fell

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1 outside the express bounds of exactly what that statute created
2 a safe harbor for, favored rather than disfavored a finding of
3 fair use and they found fair use there. We think the same is
4 true here with respect to exhaustion as opposed to Section 121.

5 THE COURT: OK. Go ahead.

6 MR. GRATZ: We hasten to add that we think this use is
7 a favored one whether or not it is transformative because it is
8 not expanding the number of people who can access a given book
9 at a given time and it serves the purpose of copyright, which
10 is to expand access to expressive works without harming the
11 incentives to create those works. The use at issue gets
12 library books to people who might otherwise not be able to
13 access them and that aids in scholarship and research and
14 promotes the creation and diffusion of knowledge that is
15 discussed at some length in the amicus brief filed by authors
16 who support controlled digital lending, the Authors Alliance
17 brief.

18 Just to close on the first factor, that's why we think
19 the first factor strongly favors a finding of fair use. As to
20 the second factor, we agree with Ms. McNamara that all
21 different types of works are involved and, as in *Google Books*
22 and *HathiTrust*, we think that makes this factor one of little
23 significance.

24 As to the third factor, the amounts used. Borrowing a
25 library book necessarily involves borrowing the whole thing and

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1 the use of the entirety, as in the back half of *HathiTrust*, is
2 necessary to that favored purpose of making library lending
3 more efficient.

4 If I can turn now to the fourth factor, the effect on
5 the market, this is the unusual case where we could measure
6 whether there is an effect on the market and plaintiffs provide
7 no opposing empirical evidence that there was.

8 You asked Ms. McNamara whether there are issues of
9 fact with respect to harm and in our view there are not and
10 that question is resolved in the defendant's favor. There is
11 no evidence that the publishers have lost a dime. They say
12 that in the hypothetical world where the publisher was entitled
13 to get a fee for this they would have gotten a fee for this and
14 they didn't get a fee for this but that simply assumes the
15 conclusion. Courts don't assume that there is a licensing
16 market. Courts use the analysis from --

17 THE COURT: Isn't it plain that there is a market for
18 eBooks?

19 MR. GRATZ: There is a market for eBooks but that is
20 not the relevant question. There was, for example, in *Sony*, a
21 market for videotapes of movies but that is not the level of
22 specificity at which the analysis operates. Here, the relevant
23 question, the relevant economic actor, the person deciding what
24 to do, whether to engage in this use, is the library who owns a
25 book and wants to circulate it to their patrons digitally and

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1 not circulate it physically. And from the point of view of
2 such a library, there is no license they can get from the
3 publishers to allow them to scan their book and circulate it
4 digitally. That is because there has never been a licensing --

5 THE COURT: But they could buy an eBook or they could
6 license an eBook from the publisher.

7 MR. GRATZ: That is correct. And we think it is not
8 dispositive and arguably not relevant because, for example, in
9 *Sony*, the record evidence was that the consumer in question
10 could have purchased a pre-recorded videotape or a laser disk
11 or rented one. In a way that did not relate to their
12 entitlement to receive that content which is why we think the
13 Second Circuit's focus in interpreting *Sony* is so, you know, is
14 so focused on that the delivery was to one entitled to receive
15 the content, not just anybody. And so that's why we don't
16 think -- the fact that there is a licensed market for libraries
17 who don't own a book or a license market for license that has
18 nothing to do with the library owning the book.

19 THE COURT: But wait a minute. Why do you define the
20 market that way rather than to simply say a library, whether
21 they own a physical copy or not, has the ability to license an
22 eBook from a publisher. Rather than to pay that licensing fee
23 to the publisher, some libraries choose to make their own copy
24 and to lend that copy. Why isn't it self-evident that that
25 deprives the publisher of the fee that the publisher could

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1 otherwise obtain from licensing an eBook to that library?

2 MR. GRATZ: It is because with respect to the copies
3 at issue in the CDL situation, the copies the issue here, the
4 question is not between OverDrive and nothing, right? The
5 question is between physically lending the book to a particular
6 patron, for which no payment would be due to the publisher, or
7 digitally lending a book to the patron. The question is not
8 what would happen if they didn't own a book or the patron
9 didn't want it digitally or the patron didn't -- that is, the
10 question is we have got a copy available and we can loan it to
11 a particular patron. The fact that if we didn't have a copy or
12 regardless whether we have a copy we could get some other, rent
13 a copy and loan it to that patron, we don't think, enters into
14 the analysis.

15 THE COURT: Why not?

16 MR. GRATZ: Because the question is what is the
17 alternative. The alternative, in our situation, is physical
18 lending. Everyone agrees that instead of -- if a particular
19 patron wants a book we can hand it to them, mail it to them,
20 whatever. Right? Bring a bookmobile around to their
21 neighborhood. That is the relevant alternative not --

22 THE COURT: Hold on. Hold on.

23 The library has a desire to lend to a customer or
24 patron an eBook. The library can, without authorization, make
25 a -- scan the entire book in its collection and lend out that

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1 eBook or it could purchase a license from the publisher. It
2 chooses to simply make a copy itself without paying a fee and
3 to lend that copy. Why is the relevant market then not eBooks?

4 MR. GRATZ: The relevant market is not eBooks because
5 in the second of your Honor's hypotheticals, the library is not
6 lending a book from its collection. The library still has and
7 could lend to someone else the physical book in its collection.
8 And so, in that way, the two situations don't precisely line
9 up.

10 THE COURT: OK. Is --

11 MR. GRATZ: It is certainly possible -- I'm so sorry,
12 your Honor.

13 THE COURT: Thank you. I didn't mean to interrupt
14 you.

15 Is it fair that your experts don't analyze a market
16 for eBooks? They come to the conclusion that the existence of
17 Internet Archive has not deprived the publishers of revenues
18 because their revenues have all gone up despite the existence
19 of IA simplified?

20 MR. GRATZ: Our experts have done both of those two
21 things, your Honor. They have analyzed the revenues and shown
22 that the revenues have gone up, but in particular, with respect
23 to Dr. Jorgensen's analysis, he analyzed the demand for eBooks
24 through OverDrive to determine whether availability through CDL
25 had any effect on the demand through OverDrive, that is,

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1 whether there was any substitution between borrowing via
2 OverDrive and borrowing via CDL, or whether, for example
3 hypothetically, all of the lending on CDL if the CDL did not
4 exist would happen, is lending of those physical books or other
5 copies of physical books. And what Dr. Jorgensen found is
6 there was such effect, that is, when books were available in
7 CDL, made available in CDL, the demand for them from OverDrive
8 did not decrease and when they were removed the demand for them
9 did not increase. And so, we think that shows -- and the
10 plaintiffs prevent no opposing analysis. These two things are
11 not market substitutes, or at least to the extent they are
12 market substitutes, that the degree of loss from that
13 substitution is immeasurably small and in our view overwhelmed
14 by the countervailing public benefits of CDL.

15 THE COURT: OK.

16 MR. GRATZ: Dr. Jorgensen's analysis, we think, is
17 very important to getting comfortable with the idea that this
18 is not a harm to the publishers but only a benefit to libraries
19 and readers by making something that would have been happening
20 otherwise, that is, the lending of these very same physical
21 copies physically, making that more efficient.

22 If digital lending had caused a hit to plaintiffs
23 revenue that could weigh against fair use and the question
24 there would be what's the reason for the loss. Right? If the
25 reason for the loss is cognizable under the fourth factor

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1 because there is substitution or one that is not cognizable
2 under the fourth factor because it derived -- it had some other
3 source, it is not from substitution. We don't think we even
4 get there because the magnitude of the effect and the only
5 analysis that is before the Court is zero.

6 I want, just briefly, to respond to a point that
7 Ms. McNamara made about the kinds of harm they are claiming.
8 They are claiming harm from not having engaged with and done
9 these lends through OverDrive instead, and we have been
10 discussing that at some length and why we don't think that is a
11 comparable situation. And the second thing that Ms. McNamara
12 identified was that, in her view, these are substitutes for one
13 another. And the point that I want to make with respect to
14 that is a finding that these were substitutes would not answer
15 the question to the fourth factor. It would answer the
16 question whether any demonstrated harm or any identified harm
17 was cognizable under the fourth factor. There still has to be
18 some harm there and there has been no evidence of such harm
19 such that taking away CDL from libraries will harm those
20 libraries and their patrons with no countervailing economic
21 benefit to publishers.

22 THE COURT: But the burden is on the defendants to
23 show lack of harm as the Court of Appeals made it clear in
24 *Warhol*, because it's an affirmative defense and so --

25 MR. GRATZ: So, your Honor --

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1 THE COURT: Hold on. Let me finish on that point.

2 So, irrespective of the lack of evidence of harm, the
3 argument that there is a market for eBooks and for every copy
4 that IA makes of a book, it deprives the publishers of the
5 licensing revenue for that eBook and I would have thought that
6 under *Warhol* that would be sufficient. No?

7 MR. GRATZ: We don't think that it is, your Honor,
8 because there would need to be a reason to think that the
9 publishers were worse off than the situation in which the fair
10 use did not occur at all. Right? That is the comparable
11 situation unless there is a sort of -- unless there is a
12 licensing market for that precise thing. And, as we have been
13 discussing, we don't think there is. Libraries, in making
14 available books that they own to one patron at a time, do not
15 owe licensing fees.

16 THE COURT: But libraries do license eBooks from the
17 publishers. The publishers make a substantial amount of money
18 from licensing eBooks to libraries, right?

19 MR. GRATZ: They certainly do and we think -- we have
20 no quarrel with that and no quarrel with libraries choosing
21 that, for example, for books that they don't own a copy of or
22 for books that they want to lend out more copies than they own.
23 There are lots of good reasons for a library to engage in
24 licensing with OverDrive. We think that libraries also can --
25 everyone agrees that libraries can also lend copies they own

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1 physically. The only question is whether those same lends,
2 those same patrons can be made more efficient using digital
3 technology and that involves inevitably making copies, but that
4 inevitability of making copies in such situations evidently is
5 why fair use is there. Right? To make sure that copyright's
6 purpose continues to be served, even where something otherwise
7 would be prima facie because it involves some amount of
8 copyright.

9 I guess the point I want to make in response to your
10 Honor's concerns is I agree that we have been acting as though
11 we have the burden and I think we can assume we have the
12 burden --

13 THE COURT: Of course.

14 MR. GRATZ: -- although no Court of Appeals has
15 decided --

16 THE COURT: It is an affirmative defense, right?

17 MR. GRATZ: It is an affirmative defense, and in the
18 situation where the use is non-commercial I think it remains an
19 open question where the burdens lie. The point I want to make,
20 your Honor, it doesn't matter because whatever our burden is we
21 have met it by showing no harm.

22 The thing that I want to raise is imagine
23 hypothetically -- Ms. McNamara will think this is impossible --
24 but I want to imagine, hypothetically, that in fact the
25 publishers were not made worse off by CDL. Right? That is,

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1 every lend through CDL is a lend that if CDL does not exist
2 either would not have occurred at all or would have occurred
3 using a physical copy. In that situation there is no
4 justification for a ruling that this is not fair use because it
5 benefits the public without causing any harm to rights holders
6 versus the situation where the use did not occur at all.

7 And the second thing I want to raise is that
8 hypothetical is consistent with all of the record evidence.
9 Right? That is what we think is happening and the plaintiffs
10 have not provided evidence that something else is happening and
11 for that reason, because the Supreme Court has so recently
12 reminded us that under the fourth factor it is important to
13 look at the source of the law and balance the magnitude of that
14 loss against the public benefit of the use. We think that
15 analysis turns out very clearly in favor of us doing this
16 because the magnitude of the law is infinitesimally small, so
17 small that it cannot be measured, and the public benefit of
18 more efficient library lending is so great.

19 THE COURT: What case are you relying on for that, by
20 the way?

21 MR. GRATZ: I am relying on Google v. Oracle,
22 specifically at 1206, that potential loss of revenue is not the
23 whole story, one is to look not just at the amount but also at
24 the source of the law. And in the *Wright v. Warner Books* case
25 that is quoted in *Warhol*, the analysis of the fourth factor

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1 requires us to balance the benefit the public will derive if
2 the use is permitted and the personal gain the copyright owner
3 will receive if the use is denied. That's *Wright v. Warner*
4 *Books* at 739, which is quoted in *Warhol* at page 48.

5 The other case I would point out on that is *MCA v.*
6 *Wilson*, another Second Circuit case, which said that the less
7 adverse effect that an alleged infringing use has on the
8 copyright owner's expectation of gain, the less public benefit
9 need to be shown to justify the use.

10 And then again *Google v. Oracle* directs us to take
11 into account the public benefits the copying will likely
12 produce and whether those public benefits are comparatively
13 important or unimportant when compared with the dollar amounts
14 likely lost, taking into account as well the nature of the
15 source of the loss. That's *Google v. Oracle* at 1206.

16 THE COURT: The fact --

17 MR. GRATZ: And we think that balance turns out very
18 cleanly in our direction.

19 THE COURT: I was just going to say that the facts of
20 *Google v. Oracle* are a long way away from the facts of this
21 case. Fair?

22 MR. GRATZ: They are, your Honor, although I don't
23 think that one can take the Supreme Court's sort of discussion
24 of how to think about fair use as a principle only good for
25 case about particular subject matter.

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1 THE COURT: Oh no. No. I pay great attention to what
2 the Supreme Court has to say and apply it as best I can to the
3 facts of the case before me, so.

4 MR. GRATZ: That is what we are all trying to do here,
5 your Honor.

6 THE COURT: OK. Could you finish up?

7 MR. GRATZ: I will.

8 So, because making library lending of books that
9 libraries have bought and paid for more efficient serves the
10 purposes of copyright, the Court should rule that CDL, as
11 practiced by the Internet Archive, is fair use.

12 I will be happy to address any of the other issues
13 that we have all discussed today. We have all filed lots of
14 papers but I would be happy to address anything else that the
15 Court would like to discuss.

16 THE COURT: No, thank you. You have covered all of my
17 questions.

18 MR. GRATZ: Thank you, your Honor.

19 THE COURT: So, Ms. McNamara?

20 MS. McNAMARA: Yes, your Honor.

21 THE COURT: Go ahead.

22 MS. McNAMARA: Thank you.

23 You have already been very generous with your time and
24 I don't want to keep you much longer, I just have a few points
25 I would like to make in response to some of the arguments made

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1 by Mr. Gratz.

2 The first is that he seeks to distinguish the entire
3 body of law that has consistently held that massive duplication
4 and distribution of works in their entirety is not a fair use.
5 He tried to distinguish that primarily by emphasizing that
6 Internet Archive is a non-profit library. I direct your
7 attention to the observation in *Google Books*, which I think is
8 instructive. There, one of the side issues in the case was the
9 fact that Google was going to be returning these digital copies
10 of the books to libraries and the plaintiffs there suggested,
11 well, the libraries might misuse them. The Second Circuit made
12 clear in *Google Books* that there wasn't evidence in the record
13 to show that the libraries had been misusing them but if it
14 did, they would be liable for infringement. So I think one can
15 draw from that that the Second Circuit was clearly signaling
16 that if a library engages in mass reproduction and duplication
17 precisely as Internet Archive is doing itself, and trying to
18 get other libraries across the country to do the same, it
19 would, indeed, be infringement and not a fair use.

20 Second of all, your Honor, on the *HathiTrust* case that
21 Mr. Gratz put great weight on, he was shy to say that the
22 limited exception where the Court did allow the distribution of
23 copies was specifically limited to established disabled blind
24 users and that that is a use specifically benefited in the
25 Copyright Act itself, much as news is and why the Second

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1 Circuit in *Swatch* made an exception on the one time copying in
2 the *Swatch* case. That is not the case here. Internet Archive
3 is massively copying and distributing these entire works to the
4 entire world without discrimination. Anybody can sign up and
5 anybody can get a copy of the work.

6 Now, next on *Sony*, I think clearly while Internet
7 Archive wants to be in the shoes of the user there, they are
8 the *Sony*, and *Sony* made it clear that *Sony* was not there --
9 *Sony* was not involved in the duplication, it was the individual
10 users who were doing, in their homes, doing the one-time
11 copying, no distributing. So *Sony* is just not the same on the
12 facts.

13 Then, as to first sale doctrine and the contention
14 that it should still inform the fair use analysis, if not, and
15 give one an entire green light or pass, again, the Second
16 Circuit in *ReDigi* addressed that issue. It addressed the
17 comparable case to *Doan* which is the case the plaintiffs cite
18 on, the Second Circuit cited *Sells*, which was virtually
19 identical to *Doan* and dealt with the copying of a cover or
20 making a book physically able to be kind of refurbished so that
21 it could still be duplicated. And even with that limited kind
22 of restoration of the work, rather than the entire duplication
23 of the works at issue here, the Second Circuit said, Look, when
24 the Congress passed Section 109, they did it in a more
25 concrete, narrow way, and those cases have no application, and

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1 if you want to change the law, go to Congress. As I said at
2 the outset, what Internet Archive is trying to do is back here
3 asking your Honor to effectively change the law.

4 Now, next they talk about we have a copy that
5 libraries are free to go and get copies from OverDrive if they
6 don't have a physical book or they want another copy. But that
7 is not the premise to the massive licensing market that exists
8 here, your Honor. It serves all libraries when they have
9 digital works, physical works, both, because they have readers
10 want their works in different formats and the libraries are out
11 to serve readers. And if this was only limited to libraries
12 that didn't own the physical books so they needed to get the
13 digital work, then there would be no reason for their PR
14 campaign saying you don't have to buy it again. The reason it
15 says "again" is because they're instructing libraries don't
16 license that from the plaintiffs, just engage in CDL and take
17 the work. That's their point. And even their own expert,
18 *Hildreth*, gave her expert opinion that libraries will spend
19 less money on licensing eBooks if they're available to CDL.
20 There is no dispute in this record, your Honor, that the
21 plaintiffs suffer and they will suffer massively if CDL were
22 given a green light by the loss of this licensing market, which
23 would necessarily also have a significant impact on the
24 commercial market because, as the basic economic principle and
25 common sense is you cannot compete with free.

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1 And then, finally, as to the point that we didn't
2 present any opposing analysis. We did. We provided an expert
3 report, we provided the report by Prince who made it clear that
4 the damages would be massive.

5 And, as your Honor correctly pointed out, the burden
6 of proof on all factors of fair use are on the defendant, not
7 the plaintiffs, and Mr. Gratz said no Circuit Court has held
8 that, but in fact the *University Press v. Patton* case out of
9 the Eleventh Circuit in 2014 held that it is an affirmative
10 defense and the burden is on the defendant regardless of
11 whether the defendant is a non-profit or educational
12 institution. And here, of course, that was dealing with an
13 educational institution. Internet Archive is not an
14 educational institution, they're distributing all manner of
15 books whether it be romance, fantasy, anything. And to the
16 degree that there is an educational take-away from those works,
17 that is the result of the publishers and authors and the hard
18 work and the creation of those works, not by anything being
19 done by Internet Archive.

20 So, for all of those reasons, your Honor, we again ask
21 that the Court grant the plaintiff's motion for summary
22 judgment and deny Internet Archive's motion for summary
23 judgment.

24 THE COURT: All right. Thank you, all.

25 MS. McNAMARA: Thank you.

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1 THE COURT: I will take the motions under advisement.
2 I appreciated the briefs and I appreciated the arguments.
3 Thank you, all. Great. Bye now.

4 MS. McNAMARA: Thank you very much, your Honor.
5 Bye-bye.

6 MR. GRATZ: Thank you, your Honor.

7 THE COURT: OK. Bye.

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